

APPENDIX B

**URBAN WATER MANAGEMENT PLAN
ADOPTION RESOLUTION**

RESOLUTION NO. 04 - 1710

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LATHROP
ADOPTING THE URBAN WATER MANAGEMENT PLAN**

WHEREAS the Urban Water Management Planning Act was adopted and codified to require all water suppliers in California that provide water to more than 3,000 customers to prepare and adopt an urban water management plan; and

WHEREAS, Water Code section 10610 sets forth the required elements of an urban water management plan, including the implementation of a water supply program to ensure adequate water is available for the City as it continues to develop; and

WHEREAS, the urban water management plan prepare by Nolte and Associates and attached hereto as Exhibit "A" complies with the Water Code because it presents the history, projected growth and a water supply strategy to ensure that there is adequate water available for the City; and

WHEREAS, notice of public hearing was published in the Manteca Bulletin on June 19, 2004 and June 25, 2004, as required by Water Code Section 10642; and

WHEREAS, Water Code Section 10652 creates a statutory exemption from the California Environmental Quality Act for the preparation and adoption of urban water management plans.

NOW, THEREFORE, BE IT RESOLVED, that City Council determines that the adoption of the UWMP is exempt from CEQA and that Staff is hereby directed to prepare and forward a "Notice of Exemption" to the San Joaquin County Clerk and the Governor's Office of Planning and Research; and

NOW, THEREFORE, BE IT FURTHER RESOLVED, that the City Council hereby finds that the Urban Water Management Plan dated June 2004, prepared by Nolte & Associates on behalf of the City of Lathrop, attached hereto as Exhibit "A", complies with Water Code Section 10610 and provides the information required in that section.

The foregoing Resolution was passed and adopted on July 20, 2004, by the following vote:

AYES: Beltran, Oliver, Griffith, Dresser, Rhodes

NOES: None

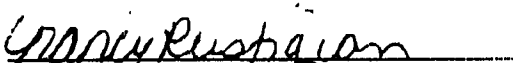
ABSENT: None

ABSTAIN: None

APPROVED AS TO FORM:


Susan Burns Cochran, City Attorney

ATTEST:


Nancy Rustigan, City Clerk

APPENDIX C

WATER SUPPLY DEVELOPMENT AGREEMENT AND CONTRACT AMENDMENT

EXECUTION COPY

WATER SUPPLY DEVELOPMENT AGREEMENT

Dated as of October 1, 1995

By and Between

SOUTH SAN JOAQUIN IRRIGATION DISTRICT

and

CITY OF LATHROP

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WATER SUPPLY DEVELOPMENT AGREEMENT

This Agreement, dated as of October 1, 1995, by and between the South San Joaquin Irrigation District (the "District"), an irrigation district duly organized and existing pursuant to the Irrigation District Act (the "Irrigation District Act"), commencing with California Water Code, Section 20500 and the City of Lathrop (the "City"), a municipal corporation created pursuant to the constitution and laws of the State of California.

WITNESSETH:

WHEREAS, the City and certain other water purveyors in San Joaquin County have expressed interest in purchasing treated water from the District (capitalized terms used herein and not otherwise defined shall have the meanings set forth below);

WHEREAS, in order for the City to receive treated water, certain facilities, including the Project, must be constructed;

WHEREAS, by entering into this Agreement, the City intends to preserve its ability to receive treated water from the Project in the future through subsequent construction of project facilities, in addition to those initially constructed, sufficient to serve the City.

WHEREAS, the District and the City now wish to enter into this Agreement to provide for the construction, operation and financing of the Project, for the sale by the District to the City of the City's Project Allotment and certain other matters;

NOW THEREFORE, the parties hereto do agree as follows:

Section 1. Definitions.

The following terms shall, for all purposes of this Agreement have the following meanings:

"Additional Project Participant" means any public district, agency or entity or private water company, other than those entities listed in Part I of Appendix A hereto, which executes a Water Supply Agreement in accordance with Section 18 hereof, together with their respective successors or assigns.

"Bonds" mean all bonds, notes or similar obligations (but not including Contracts) of the City authorized and issued by the City under and pursuant to applicable laws of the State of California after the date of execution of this Agreement, the principal of and interest on which are an operation and maintenance expense of the City Water System determined in accordance with generally accepted accounting principles and which are secured by a pledge or a lien on City Net Water System

Revenues and which are on a parity with the obligations of the City under this Agreement.

"Bond Resolution" means the resolution or resolutions providing for the issuance of District Bonds and the terms thereof.

"City" shall have the meaning assigned thereto in the preamble hereto.

"City Fiscal Year" means the twelve month period commencing on October 1 of each year and ending on the following June 30 or such other twelve month period which may be designated by the City as its fiscal year.

"City Net Water System Revenues" means, for any City Fiscal Year, the City Water System Revenues for such City Fiscal Year less the City Operation and Maintenance Expenses for such City Fiscal Year.

"City Operation and Maintenance Expenses" means the costs spent or incurred by the City for maintaining and operating the City Water System, calculated in accordance with generally accepted accounting principles, including (among other things) the expenses of management and repair and other expenses necessary to maintain and preserve the City Water System, in good repair and working order, and including administrative costs of the City, salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and all other reasonable and necessary costs of the City, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, and (iii) charges for the payment of principal and interest on City Prior Debt, Bonds or Contracts.

"City Prior Debt" means notes, bonds or other obligations of the City existing prior to the date of execution hereof, which are identified in Exhibit D hereto and which are payable from City Water System Revenues.

"City Water System" means all properties and assets, real and personal, tangible and intangible, of the City now or hereafter existing, used or pertaining to the acquisition, treatment, reclamation, transmission, distribution and sale of water, including all additions, extensions, expansions, improvements and betterments thereto and equipment relating thereto; provided, however, that to the extent the City is not the sole owner of an asset or property or to the extent that an asset or property is used in part for the above described water purposes, only the City's ownership interest in such asset or property or only the part of the asset or property so used for

water purposes shall be considered to be part of the City Water System.

"City Water System Revenues" means all income, rents, rates, fees, charges, and other moneys derived by the City from the ownership or operation of City Water System including, without limiting the generality of the foregoing, (i) all income, rents, rates, fees, charges or other moneys derived from the sale, furnishing, and supplying of water and other services, facilities, and commodities sold, furnished, or supplied through the facilities of City Water System, including standby and availability charges, capital water facilities fees for design, construction and reconstruction expenses, development fees and other fees allocable to the City Water System, (ii) such taxes or assessments as may be imposed for payment of Fixed Project Costs, Variable O&M Costs or Fixed O&M Costs if the levy thereof and payment hereunder is permitted by law and (iii) the earnings on and income derived from amounts set forth in clauses (i) and (ii) above, and shall not include (y) customers' deposits or any other deposits subject to refund until such deposits have become the property of the City and (z) proceeds of any taxes or assessments except taxes or assessments described in clause (ii) above.

"Contract Payments" means the Fixed Project Costs payable by the City hereunder in any City Fiscal Year and provided that the term Contract Payments shall also include the sum of:

(1) the interest accruing during such City Fiscal Year on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of the sale of any Bonds);

(2) that portion of the principal amount of all outstanding serial Bonds maturing during such City Fiscal Year;

(3) that portion of the principal amount of all outstanding term Bonds required to be redeemed or paid during such City Fiscal Year; and

(4) that portion of payments under Contracts (other than under this Agreement) constituting principal and interest required to be made at the times provided in the Contracts.

"Contracts" means this Agreement and all contracts of the City authorized and executed by the City under and pursuant to the applicable laws of the State of California after the date of execution of this Agreement, the payments under which are an operation and maintenance expense of the City Water System

determined in accordance with generally accepted accounting principles and which are secured by a pledge of or lien on the City Net Water System Revenues and which are on a parity with the obligations of the City under this Agreement.

"Debt Service" means, as of the date of calculation and with respect to District Bonds, an amount equal to the sum of (i) interest payable during such District Fiscal Year on District Bonds, except to the extent that such interest is to be paid from capitalized interest and (ii) that portion of principal of District Bonds payable during such District Fiscal Year. Such interest and principal installments for such series shall be calculated on the assumption that no District Bonds outstanding at the date of calculation will cease to be outstanding except by reason of the payment of principal on the due date thereof;

provided further that, as to any such District Bonds bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be one hundred ten percent (110%) of the greater of (a) the daily average interest rate on such District Bonds during the twelve (12) calendar months preceding the date of calculation (or the portion of the then current District Fiscal Year that such District Bonds have borne interest) or (b) the most recent effective interest rate on such District Bonds prior to the date of calculation; and

provided further that, as to any such District Bonds or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such District Bonds or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and

provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the District Bonds for which such debt service reserve fund was established and in each preceding District Fiscal Year until such amount is exhausted.

"District Bonds" means bonds, notes or other evidences of indebtedness of the District issued to finance or refinance the Project and includes additional District Bonds to complete the Project.

"District Fiscal Year" means the twelve month period commencing on January 1 of each Year and ending on the following December 31 or such other twelve month period which may be designated by the District as its fiscal year.

"Feasibility Certificate" means a certificate of a consulting engineer to the effect that, based on contracts awarded by the District for construction of the Project and the consulting engineer's estimates of the cost of the portions of

the Project for which contracts have not been awarded, the District has sufficient District Bond proceeds together with estimated proceeds to be derived from any authorized but unissued District Bonds and moneys on deposit with the District and legally available for the Project to complete the Project.

"Fixed O&M Costs" means operation, maintenance, power, replacement and other costs, including Project Operation and Maintenance Expenses and a reasonable reserve for contingencies, in each case incurred by the District with respect to the Project, irrespective of the amount of water delivered to the Project Participants.

"Fixed Project Costs" means capital costs, including Debt Service and reserves for the payment of Debt Service of the Project, incurred by the District in accordance with Sections 13 and 14 hereof.

"Independent Certified Public Accountant" means any firm of certified public accountants appointed by the City, or the District, as the case may be, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

"Operating Committee" means the Operating Committee created in accordance with Section 4 of the Water Supply Agreements.

"Project" means certain facilities necessary to deliver treated water to the Project Participants, including the following: (i) a raw water pipeline from the District's existing raw water system to the Treatment Plant, (ii) the Treatment Plant, and (iii) treated water pipelines from the Treatment Plant to the Project Participants. The District and the City acknowledge that the feasibility of the Project is currently being investigated by the District and that the definition of the Project shall be revised prior to commencement of construction as provided in Section 4 hereof without amendment to this Agreement and that the City may elect to cause certain Project facilities to be sized to include the City's Project Allotment and may elect to cause certain Project facilities to not be sized to include the City's Project Allotment.

"Project Allotment" means 8,007 acre-feet of water per year for Phase I as identified in Exhibit "A" and 11,791 acre-feet of water per year for Phase II year unless such Project Allotment for Phase II is reduced in accordance with the Water Supply Agreement.

"Project Milestones" means the events described in Section 4(b) hereof.

"Project Operation and Maintenance Expenses" means the costs spent or incurred by the District for maintaining and operating

the Project, calculated in accordance with generally accepted accounting principles and Section 20 hereof, including (among other things) the expenses of management and repair and other expenses necessary to maintain and preserve the Project, in good repair and working order, and including administrative costs of the District, salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the District, or charges required to be paid by it to comply with the terms of the District Bonds or of this Agreement, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles or other bookkeeping entries of a similar nature, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Project, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation and (iv) charges for the payment of principal and interest on the District Bonds.

"Project Participant" mean the City and each entity listed in Part I of Appendix A hereto executing Water Supply Agreements with the District, and each Additional City.

"Reaches" means the segments of the Project from or through which Project Participants receive water which will be determined in accordance with Section 5(a) hereof.

"Request" means a written certificate of the City Manager of the City specifying the portion of the City's Project Allotment which the City requests be delivered by the District to the City in each month of a Year in accordance with Section 6 hereof.

"Treatment Plant" means water treatment facilities to be located at a site to be determined by the District after consultation with the Operating Committee and with capacity sufficient so as to treat the Project Allotments of all Project Participants, including all associated facilities, rights, properties, electrical facilities and improvements appurtenant thereto as provided and necessary therefor.

"Trustee" means the entity or entities designated by the District pursuant to any Bond Resolution to administer any funds or accounts required by such Bond Resolution or otherwise.

"Variable O & M Costs" means the operation, maintenance, power, replacement and other costs, including Project Operation and Maintenance Expenses and water supply costs at a cost per acre-foot established in accordance with this Agreement (which cost shall be lower for Project Participants located within the District and higher for those Project Participants located outside the District), incurred by the District in connection

with the Project in an amount which is dependent upon and varies with the amount of water delivered to the Project Participants.

"Water Supply Agreement" means this Agreement and each Water Supply Development Agreement by and between the District and a Project Participant, as the same may be amended or supplemented from time to time.

"Year" means the twelve-month period from January 1 through December 31, both dates inclusive.

Section 2. Purpose.

The purpose of this Agreement is for the District to sell Project Allotment to the City, to deliver Project Allotment to the City available from the Project, to provide the terms and conditions of such delivery and sale and to provide for the financing of the Project. The parties hereto confirm that this Agreement constitutes a contractual right to purchase treated water and that no water right is being transferred by the District to any Project Participant under this Agreement. Each Project Participant acknowledges that the District is entering into Agreements with cities located within the District and outside the District and upon execution hereof each Project Participant waives any claim such Project Participant may have to the Project Allotment of other Project Participants.

Section 3. Financing, Construction and Operation.

(a) District to Develop Project. Subject to compliance with all necessary federal and state laws, including but not limited to the California Environmental Quality Act ("CEQA"), the terms and conditions of the District's water rights, permits and licenses and all agreements relating thereto, the District will use its best efforts to cause or accomplish the construction, operation and financing of the Project, the obtaining of all necessary authority and rights, consents and approvals, and the performance of all things necessary and convenient therefor.

The parties acknowledge that the construction and operation of the Project constitutes a project subject to environmental review under CEQA. At the time of execution of this Agreement, the specific nature of the Project is still uncertain and only vaguely defined. As contemplated by this Agreement, the specific nature of the Project will be developed after further study in the next feasibility and preliminary design phase of the Project development, and through those phases City retains full discretion whether to proceed. Accordingly, the District and each City agree that CEQA review should be deferred to a subsequent phase of Project development after the Project is more specifically defined. The District shall conduct and complete appropriate CEQA environmental review no later than commencement of final Project engineering design. Such environmental review

may be tiered to enable the Cities to perform related but independent CEQA analysis.

(b) Project Milestones. The District may approve a Project Milestone only in the event the District has received a certified resolution of the Operating Committee and, in the event of the Commencement of Construction, the following conditions are met: (i) the District has received a report of a consulting engineer setting forth a description of the Project, which may include amendments to the definition of the Project, (ii) has received a Feasibility Certificate with respect to the Project, (iii) the District has approved any and all conditions imposed by any federal, state or local agency on Project approvals, and (iv) evidence that any approvals, permits, licenses or similar actions required by the State Water Resources Control Board necessary to permit the District to deliver treated water to the Project Participants shall have been received or progress satisfactory to the District and the City has been achieved.

(c) Termination of Participation or Reduction of Project Allotment. The City may terminate its participation in the Project or reduce its Project Allotment (i) on or prior to the issuance of any District Bonds, (ii) on or prior to the commencement of final design of the Project or (iii) on or prior to the commencement of construction determined in accordance with Section 3(b) hereof by delivery of a certified resolution of the City Council delivered to the District. In the event of a termination after the issuance of any District Bonds, the City shall have the option of (a) paying to the District all Fixed Project Costs allocable to the City in accordance with Section 14 hereof, in which case this Agreement shall terminate, or (b) to remain obligated to pay Fixed Project Costs allocable to the City in accordance with Section 14 hereof until paid in full, in which case this Agreement shall not terminate until such payment in full. On and after the date such resolution is delivered to the District, the City shall not be obligated to pay any Fixed Project Costs with respect to construction of the Project or any Fixed O&M Costs or Variable O&M Costs relating to delivery of treated water. Within ten days of notice to the District of a termination of participation or a reduction in the Project Allotment by any Project Participant, the District shall provide written notice thereof to the City. The District shall not issue any District Bonds within 30 days of such notice to the City without written approval thereof by the City.

(d) Obligation to Pay Construction Costs. The District shall not incur any Fixed Project Costs with respect to costs of construction prior to commencement of construction in accordance with Section 3(b) hereof and the City shall not be obligated to pay any Fixed Project Costs with respect to construction prior to such commencement of construction. In the event that the City elects to terminate its participation in the Project prior to commencement of construction in accordance with Section 3(c)

hereof, the City shall have no obligation to pay any Fixed Project Costs with respect to costs of construction.

Section 4. Operating Committee.

(a) General. The District shall establish an Operating Committee for the Project. The Operating Committee shall consist of the General Manager of the District and the City Manager of each Project Participant unless the District or a Project Participant designates another staff member or consultant to serve on the Operating Committee and shall be chaired by the General Manager of the District or his or her designee. The Operating Committee shall meet at least quarterly and at other times when a meeting is called by the chair of the Operating Committee or upon written request thereof by two Project Participants. The Operating Committee shall (i) have authority to approve Project Milestones, (ii) develop operating procedures and may recommend to the District that the District and the Project Participants enter into operating agreements to supplement this Agreement from time to time, and (iii) meet to review, evaluate and recommend to the District by majority vote items related to the acquisition, construction, financing, operation and maintenance of the Project and the status of any water rights issues relating to the District's ability to deliver treated water to the City, including but not limited to review of the construction budget, the annual operations and maintenance budget and other financial and operational matters relating to delivery of treated water to the Project Participants.

(b) The District shall give written notice to the Operating Committee 45 days prior to commencing any Project Milestone. The District may commence any Project Milestone on or after the 45th day following such written notice unless a Project Participant shall have disapproved commencement of such Project Milestone in writing on or before such 45th day. Such disapproval shall include the reason or reasons for the disapproval. In the event the District receives a written disapproval from a Project Participant the District shall work to address and resolve such Project Participant's concerns and then request the written authorization to proceed for the Project Milestone. In the event that the District and such Project Participant cannot resolve such disapproval within 60 days, either the District or the Project Participant may terminate this Agreement by giving written notice to the other party subject to such Project Participant's obligation to pay Fixed Project Costs Incurred prior to said date. The Project Milestones are:

(i) Commencement of Final Design. Prior to commencing with the final design phase under an engineering services contract, the District shall provide the City with the preliminary design plans and preliminary cost estimate. The District shall not

award a contract for final design work until Section 3(a) and (b) have been complied with.

(ii) Commencement of Construction. Prior to commencing construction, the District shall provide the City with the final design work, including construction-ready final plans and specifications and final cost estimate and a final pricing and delivery policy for raw water. The District shall not commence construction until Section 3(a) and (b) have been complied with.

(iii) Financing. Prior to issuing District Bonds to finance the Project, the District shall give written notice of the District's finance plan and proposed not-to-exceed terms which shall be binding upon the District. The District shall not issue any District Bonds until Section 3(a) and (b) have been complied with.

(c) Compliance with Agreements. No action by the Operating Committee pursuant to the Water Supply Agreements or otherwise shall in any way affect the ability of the District to act with respect to any Bond Resolution, any agreement entered into by the District for the construction or operation of the Project or any applicable licenses, permits or regulatory provisions and the District shall be responsible for executing contracts relating to construction and operation of the Project and fulfilling the obligations of the District thereunder.

Section 5. Construction of the Project.

(a) Determination of Capacities of Reaches and Treatment Plant. Unless otherwise determined by the District after consultation with the Operating Committee, the capacity of the Reaches of the Project will be determined by the Consulting Engineer based upon the Contract Project Allotment and Treatment Plant capacity, at one or more turnouts for the City as agreed to by the District and the City. Unless otherwise agreed by the District and the City in writing, and subject to Section 4 hereof, the Treatment Plant will have sufficient capacity to serve the City its full Project Allotment.

Subject to the rights of the City under subsection (b) of this Section and the other provisions of this Agreement, the District shall provide in each appropriate Reach of the Project and in the Treatment Plant capacity to serve the City with the daily amount requested by the City as agreed to by the City and the District in writing prior to the commencement of the construction of the Project.

(b) Criteria for Determining Capacity of Project. The District shall design and construct the Project with the Reaches

and Treatment Plant capacity determined as set forth in subsection (a) of this Section and necessary to enable delivery of daily delivery of water in each Year to the City and to other Project Participants and at the locations, times, maximum rates and minimum pressure agreed to by the District and the City.

(c) Inspection of Project Plans and Specifications;
Preparation of Bid Materials; Award of Contracts. Unless otherwise determined by the District, the District shall prepare and put out to public bid a single set of bid materials (which may include multiple schedules) relating to construction and acquisition of each Reach and of the Treatment Plant. Prior to the award of any such contract or contracts, the District shall determine whether the total amount of such contract or contracts, together with contracts previously awarded with respect to the Project, together with the estimated costs for those portions of the Project for which contracts have not been awarded as determined by a consulting engineer, can be funded from the proceeds derived from District Bonds, estimated proceeds to be derived from any authorized but unissued District Bonds and other amounts then on deposit with the District and legally available therefor, including estimated investment earnings thereon. The District shall not award any contracts which would cause the District to be obligated for an amount which is in excess of the proceeds to be derived from District Bonds and other amounts on deposit with the District and legally available for the Project.

Section 6. Delivery of Water.

(a) Request by City. Pursuant to the terms of this Agreement, the District shall provide to the City, and the City shall take, or cause to be taken, in each Year an amount of water equal to the amount set forth in a Request of the City, but in no event shall the District be obligated to deliver an amount of water in excess of the City's Project Allotment. Subject to the Project Participant's payment obligations hereunder, the District agrees to use its best efforts to deliver water pursuant to this Agreement meeting all applicable local, state and federal water quality standards as such standards may be in effect from time to time.

(b) Maximum Project Allotment. The District is currently entitled to appropriate water from the Stanislaus River and the District shall make available to the City its Project Allotment from such appropriated water, subject to the availability of water and compliance with all local, state and federal laws, rules and regulations.

(c) Points of Delivery. The District will deliver or cause to be delivered to or for the account of the City the amount of water specified in each request at a point along the Project to be agreed upon by the District and the City. The District will remain available to make or cause to be made all necessary and

possible arrangements for transmission and delivery of such water in accordance with this Agreement.

(d) Procedure for Determining Water Delivery Schedule. The amounts, times and rates of delivery of water to the City during any Year shall be in accordance with a water delivery schedule for that Year, such schedule to be determined in the following manner:

(1) On or before October 15 of each year, the City shall submit in writing to the District a preliminary water delivery schedule indicating the amounts of water desired by the City during each month of the succeeding three Years or such lesser or greater period as the District shall determine.

(2) Upon receipt of a preliminary schedule the District shall review it and, after consultation with the City, shall make such modifications in it as are necessary to insure that the amounts, times, and rates of delivery to the City will be consistent with the District's overall delivery ability, considering the then current delivery schedules of all Project Participants and the District.

(3) A water delivery schedule may be amended by the District upon the City's written request. Proposed amendments shall be submitted by the City within a reasonable time before the desired change is to become effective, and shall be subject to review and modification by the District in like manner as the schedule itself.

(e) Limit on Peak Deliveries of Water. In no event shall the District contract to deliver to the City from the Project in any Year nor to deliver to the City from the Project in any one day a total amount of Project Allotment in any one day an amount of Project Allotment greater than that agreed to by the District and each Project Participant prior to the issuance of any District Bonds.

(f) Limit on Rate of Delivery to City. In no event shall the District be obligated to deliver water to the City through any delivery structure at a total combined instantaneous rate of flow exceeding the cubic feet per second and minimum pressure which will be determined upon the initial operation date, except as this rate of flow or pressure may be revised by mutual written agreement of the District and the City.

(g) Delivery of Water Not Delivered in Accordance with Schedule. If in any Year the District, as a result of causes beyond its control, is unable to deliver any portion of the City's Project Allotment for such Year as provided for in the delivery schedule established for that Year, the City may elect to receive the amount of water which otherwise would have been

delivered to it during such period at other times during the Year, to the extent that such water is then available and such election is consistent with the District's overall delivery ability, considering the then current delivery schedules of all Project Participants and the District.

Section 7. Curtailment of Delivery for Maintenance Purposes.

(a) District May Curtail Deliveries. The District may temporarily discontinue or reduce the delivery of water to the City hereunder for the purposes of necessary investigation, inspection, maintenance, repair, or replacement of any of the Project facilities necessary for the delivery of water to the City. The District shall notify the City as far in advance as possible of any such discontinuance or reduction, except in cases of emergency, in which case notice need not be given.

(b) City May Receive Later Delivery of Water Not Delivered. In the event of any discontinuance or reduction of delivery of water pursuant to subsection (a) of this Section, the City may elect to receive the amount of water which otherwise would have been delivered to it during such period under the water delivery schedule for that Year at other times during the Year to the extent that such water is then available and such election is consistent with the District's overall delivery ability, considering the then current delivery schedules of all Project Participants and the District.

Section 8. Shortage in Water Supply.

(a) Shortages. In any Year in which there may occur a shortage or interruption due to drought or other cause in the supply of water available for delivery to the Project Participants, including but not limited to shortages or interruptions caused by changes in laws, regulations or rulings relating to or affecting the District's water rights, permits and licenses, with the result that such supply is less than the total of the annual Project Allotments of all Project Participants for that Year, the District shall reduce the delivery of water to the City pro rata with deliveries to all Project Participants based upon the Project Allotment of the City and each Project Participant without preference or priority among the City and the Project Participants.

(b) Allocation of Shortages. The District shall allocate any shortage or interruption in the supply of water available for delivery by District hereunder between agricultural users and the Project Participants such that any percentage reduction in the delivery of water to the City is approximately equal to the percentage reduction in the delivery of water to the District's agricultural customers.

(c) Future Annexations of Land to District. The District shall not annex any land to the District other than land the acquisition of which has been approved by the Board of Directors prior to the effective date of this Agreement unless said annexation shall include an express condition that the lands so annexed shall have an entitlement to receive water from District that is subordinate in priority to the right of City to receive water from District pursuant to this Agreement. In any Year in which there may occur a shortage or interruption in the supply of water available hereunder with the result that such supply is less than the total of the annual Project Allotment of all Project Allotments of all Project Participants for the Year, the District shall reduce or suspend the delivery of water by District to lands annexed to District following the effective date of this Agreement.

(d) Future Transfers of Water by District. In the event that, following the effective date of this Agreement, District enters into any agreement for the sale or transfer of water (i) to any retail or wholesale water provider for consumptive use outside District boundaries, the District shall ensure that such transfer agreement includes an express condition that the transferee shall have an entitlement to receive water from the District that is subordinate in priority to the right of City hereunder and (ii) for statutory, regulatory or permitting and other similar purposes, the District shall ensure that such transfer agreement does not dispropertarily affect the amount of water available for the Cities as compared to amount of water available to agricultural water users in the District. In any Year in which there may occur a shortage or interruption in the supply of water with the result that said supply available to the Project Participants is less than the annual Project Allotment of all Project Participants for the year, District will reduce or suspend the delivery of water by the District to such transferee. The District represents and warrants that, as of the effective date of this Agreement, it has not entered into any agreement, other than this Agreement, for the sale or transfer of water for use outside the District's boundaries which is not subordinate in priority to the right of the City and the Project Participants hereunder.

(e) No Liability for Shortages. Neither the District nor any of its officers, agents, or employees shall be liable for any damage, direct or indirect, arising from the shortages in the amount of water to be made available for delivery to the City under this Agreement caused by drought or any other cause beyond its control; provided however that nothing in this clause (e) shall excuse the District from compliance with clauses (a), (b), (c) and (d) hereof.

Section 9. Measurement of Water Delivered.

The District shall measure, or cause to be measured, all water delivered to the City and shall keep and maintain accurate and complete records thereof. For this purpose and in accordance with Section 6 hereof, the District shall install, operate, and maintain, or cause to be installed, operated and maintained, at all delivery structures for delivery of water to the City such measuring devices and equipment as are satisfactory and acceptable to both parties. Said devices and equipment shall be examined, tested, and serviced by the District regularly to insure their accuracy. At any time or times, the City may inspect such measuring devices and equipment, and the measurements and records taken therefrom.

Section 10. Responsibility for Delivery and Distribution of Water.

(a) Neither the District nor any of its officers, agents, or employees shall be liable for the control, carriage, handling, use, disposal, or distribution of water supplied to the City after such water has passed the delivery structures established in accordance with Sections 5(a) and 6(c) hereof; nor for claim of damage of any nature whatsoever, including but not limited to property damage, personal injury or death, arising out of or connected with the control, carriage, handling, use, disposal or distribution of such water beyond said delivery structures and including attorneys fees and other costs of defense in connection therewith; the City shall indemnify and hold harmless the District and its officers, agents, and employees from any such damages or claims of damages.

(b) Neither the City nor any of its officers, agents, or employees shall be liable for the control, carriage, handling, use, disposal, or distribution of water to be supplied to the City until such water has reached the Project facilities, including but not limited to property damage, personal injury or death, arising out of or connected with the control, carriage, handling, used, disposal or distribution of such water before it has reached said delivery structures and including attorneys fees and other costs of defense in connection therewith; the District shall indemnify and hold harmless the City and its officers, agents, and employees from any such damages or claims of damages.

Section 11. Sale or Other Disposition of Project Allotment By City.

(a) Sale or Other Disposition of Project Allotment Without Approval. The City may sell or otherwise dispose of all or any portion of its Project Allotment within its boundaries and within its sphere of influence as determined by the San Joaquin County Local Agency Formation Committee, or any successor entity thereto, or to another Project Participant without approval by the District.

(b) Sale or Other Disposition of Project Allotment Subject to Approval. The City may sell or dispose of all or any portion of its Project Allotment to retail water providers within San Joaquin County, with the approval of the District, provided however that such sale shall be subject to a right of first refusal of all Project Participants and the District on a pro rata basis to take delivery of such Project Allotment on the same terms and conditions.

(c) No Other Sales or Other Disposition. The City may not sell or otherwise dispose of all or any portion of its Project Allotment or its rights or obligations with respect thereto except as set forth in subsections (a) and (b) of this Section or Section 17 hereof.

(d) No Reduction in City Obligation. In no event shall any sale or other disposition of all or any portion of the City's Project Allotment relieve the City of any of its obligations hereunder.

(e) Notice of Sale or Other Disposition. The City shall give ninety (90) days' advance written notice to the District of any proposed sale or other disposition pursuant to this Section.

Section 12. Rates and Charges.

(a) Establishment of Rates and Charges. The District shall fix charges to the City under this Agreement to produce revenues to the District from the Project equal to the amounts anticipated to be needed by the District to meet the following costs of the District to deliver the City's Project Allotment (including treatment plant capacity) through the Project: (i) Fixed Project Costs, (ii) Fixed O&M Costs, and (iii) Variable O&M Costs. The District shall fix charges to the City to produce revenues to the District from the Project to meet the costs described in (i) and (ii) above as set forth in Section 14 hereof and to meet the cost described in (iii) above based on Requests of the City for water and the amount of water received by the District.

(b) Insufficiency of Funds. Because costs determined in accordance with this Agreement are based on estimates if such funds are not sufficient for such purposes, the City shall pay to

the District an amount equal to such City's share of the total cost to pay Fixed Project Costs in the proportions established in accordance with Section 14 hereof. The obligation of this Section is incurred by the City for the benefit of future owners of District Bonds, and shall commence and continue to exist and be honored by the City whether or not water is furnished to it from the Project at all times or at all (which provision may be characterized as an obligation to pay all costs on a take-or-pay basis whether or not water is delivered or provided and whether or not the Project is completed or is operable.)

(c) Source of Payments. The obligation of the City to make payments under this Agreement is not a general obligation of the City and the City shall make payments under this Agreement solely from City Water System Revenues as a City Operation and Maintenance Expense. The City shall make such payments prior to any payment therefrom, other than City Prior Debt and on a parity with other City Operation and Maintenance Expenses. Nothing herein shall be construed as prohibiting (i) the City from using any other funds and revenues for purposes of satisfying any provisions of this Agreement or (ii) from incurring obligations payable on a parity with the obligations under this Agreement so long as the City complies with subsection (a) of Section 19(a) hereof.

(d) Obligation Is Not Subject To Reduction. The City shall make payments under this Agreement whether or not the Project is completed, operable, operated or retired and notwithstanding the suspension, interruption, interference, reduction or curtailment of operation of the Project or of water contracted for in whole or in part for any reason whatsoever. Such payments are not subject to any reduction, whether offset or otherwise, and are not conditioned upon performance by the District or any other Project Participant under this Agreement or any other agreement.

(e) Several Obligation. The City shall not be liable under this Agreement for the obligations of any other Project Participant. The City shall be solely responsible and liable for performance of its obligations under this Agreement. The obligation of the City to make payments under this Agreement is a several obligation and not a joint obligation with those of the other Project Participants.

Section 13. Annual Budget and Billing Statement.

The District will prepare a preliminary annual budget for the first year of Project operation at least six months prior to the projected date of Operation. Thereafter, the District will prepare a preliminary annual budget for each applicable Year for credits, costs and expenses relating to the Project, including Fixed Project Costs, Variable O&M Costs and Fixed O&M Costs on or before September 1 of each Year. The District shall submit a draft of such budget to the Operating Committee on or prior to

each September 15 for review and comment by the Operating Committee. District staff shall use its best efforts to resolve any questions or concerns caused by a Project Participant during such review. The Board of Directors of the District will adopt a final annual budget for the applicable Year on or before December 1 of each Year after at least one public hearing on the budget and shall allow any Project Participant which may object to any provision of the budget to present such objection during such hearing. The District shall supply a copy of said final annual budget to the City on or before December 15 of each Year. Any amendment to the budget shall be submitted to the Operating Committee for review and comment at least 30 days prior to action thereon by the District Board of Directors. Any such amendment shall be subject to the same hearing requirements applicable to the budget set forth above.

Section 14. Allocation of Costs and Expenses.

For the purpose of allocations of costs and expenses pursuant to this Agreement, the Project shall be allocated (i) to such Reaches as are determined by the District to be necessary for such allocations of costs and (ii) to the Treatment Plant. Except as permitted herein, the District shall not allocate costs and expenses in any way which discriminates among Project Participants which take delivery through the same Reaches except that the cost of raw water included in Variable O&M Costs may be varied between Project Participants within the boundaries of the District and those outside the boundaries of the District. After the execution of this Agreement and prior to commencement of construction of the Project, the District and the Project Participants shall develop a cost allocation method for District general fund and other general overhead and allocable raw water system costs to be allocated to the Project.

(a) Method of Computation of Fixed Project Costs. The Fixed Project Costs shall be sufficient to return to the District those capital costs of the District necessary to treat and deliver water to the City. The total amount of Fixed Project Costs of the Treatment Plant and each Reach of the Project utilized by the City shall be allocated to the City based upon the ratio of the Project Allotments (including treatment plant capacity) of the City to the Project Allotments (including treatment plant capacity) of all Project Participants utilizing the Treatment Plant and such Reach. The City and the District acknowledge that if the City has not elected to have all facilities which are a part of the Project sized to enable the City to take treated water, the City shall not be liable for any Fixed Project Costs for such unconstructed facilities.

(b) Method of Computation of Fixed O&M Costs. The Fixed O&M Costs shall return to the District those costs of the Project necessary to deliver water to the Project Participants which constitute Fixed O&M Costs. The total amount of Fixed O&M Costs

of the Treatment Plant and each Reach of the Project for each Year shall be allocated among all Project Participants entitled to delivery of water from or through the Treatment Plant and each Reach based upon the ratio of the Project Allotment (including treatment plant capacity) of each Project Participant to which water is treated at the Treatment Plant or delivered through the Reach to the total Project Allotment (including treatment plant capacity) of all Project Participants for which water is treated at the Treatment Plant or delivered through the Reach, as the case may be. The City and the District acknowledge that if the City has not elected to have all facilities which are a part of the Project sized to enable the City to take treated water, the City shall not be liable for any Fixed O&M Costs for such unconstructed facilities.

(c) Method of Computation of Variable O&M Costs. The Variable O&M Costs shall return to the District those costs of the Project which constitute Variable O&M Costs. There shall be computed for the Treatment Plant and for each Reach of the Project a charge per acre-foot of water which will return to the District the total projected Variable O&M Costs of the Treatment Plant and each Reach for each Year, which computation will reflect the differing cost of raw water to Project Participants within the District and those outside the District. The amount of the Variable O&M Costs the Treatment Plant and for each Reach of the Project shall be the sum of the products obtained when the charges per acre-foot of water determined above for the Treatment Plant and for each Reach necessary to deliver water to the City are multiplied by the number of acre-feet of water treated by the Treatment Plant and water delivered to the City from or through that Reach during the Year, as the case may be. The City and the District acknowledge that if the City has not elected to have all facilities which are a part of the Project sized to enable the City to take treated water, the City shall not be liable for any Variable O&M Costs.

(d) Adjustments of Allocation. On or after the date the Project is in operation, the District shall update the values and amounts of Fixed Project Costs, Fixed O&M Costs and Variable O&M Costs a quarterly basis, including year-to-date comparisons to the approved Project budget in order that the costs and expenses to the City may accurately reflect increases or decreases from Year to Year in projected costs, principal and interest payments on District Bonds, annual Project Allotments, estimated deliveries, and all other factors which are determinative of such charges. In addition, each such determination shall include an adjustment to be paid by the City for succeeding Years which shall account for the differences, if any, between projections of costs used by the District in determining the amounts of said costs and expenses for all preceding Years and actual costs incurred by the District during such Years.

Section 15. Time and Method of Payment.

(a) Fixed Project Costs. Payments by the City of the Fixed Project Costs shall commence on December 1, 1995. Thereafter, the City shall pay to the District, on or before January 1 of each Year, 100% of the charge to the City for the next succeeding District Fiscal Year of the Fixed Project Costs.

(b) Fixed O&M Costs. Payments by the City of the Fixed O&M Costs shall commence on December 1, 1995. Thereafter, the City shall pay to the District, on or before January 1 of each Year, the sum of the charges to the City for the Year for the Fixed O&M Costs.

(c) Variable O&M Costs. Payments by the City of the Variable O&M Costs shall commence on the January 1, April 1, July 1 or October 1 which is closest to, but is at least three months immediately preceding, the date on which initial water delivery is estimated to be made to the City. Thereafter, the City shall pay to the District the charges to the City for the Variable O&M Costs for the three-month period commencing on the next succeeding January 1, April 1, July 1 or October 1 so that the District receives quarterly payments of Variable O&M Costs three months in advance of the time when such Variable O&M Costs will begin to be incurred by the District.

(d) Statement of Charges. The District shall furnish the City with a written statement of the estimated Fixed Project Costs and Fixed O&M Costs of the City for the next succeeding District Fiscal Year, taking into account applicable credits received by the District and estimated investment earnings on moneys related to the Project held by the District. The District shall, on or before March 15, June 15, September 15 and December 15 of each Year, commencing with the District Fiscal Year in which the initial operation date is estimated to occur furnish the City with a statement of the charges to the City for the Variable O&M Costs for the three-month period commencing on the July 1, October 1, January 1 or April 1, commencing three and one-half months subsequent to such date.

(e) Contest of Accuracy of Charges. If a City questions or disputes the correctness of any billing statement by the District, it shall pay the District the amount claimed when due and shall within thirty (30) days of receipt of such billing statement request an explanation from the District. If the bill is determined to be incorrect, the District will adjust the bill to such City in the next District Fiscal Year. If the District and the City fail to agree on the correctness of a bill within thirty (30) days after the City has requested an explanation, the parties shall promptly submit the dispute to arbitration under Section 1280 et seq. of the Code of Civil Procedure.

Section 16. Obligation in the Event of Default.

(a) Written Demand Upon Failure to Make Payment. Upon failure of the City to make any payment in full when due under this Agreement or to perform any other obligation hereunder, the District shall make written demand upon the City, and if said failure is not remedied within thirty (30) days from the date of such demand or, if District Bonds are outstanding, for such additional time as is reasonably required, in the sole discretion of the Trustee, to correct the same, such failure shall constitute a default at the expiration of such period. Notice of such demand shall be provided to each other Project Participant by the District. Upon failure of the District to perform any obligation of the District hereunder, the City shall make written demand upon the District, and if said failure is not remedied within thirty (30) days from the date of such demand or, if District Bonds are outstanding, for such additional time as is reasonably required, in the sole discretion of the Trustee, to correct the same, such failure shall constitute a default at the expiration of such period. Notice of such demand shall be provided to each Project Participant by the City making such written demand.

In addition to any default resulting from breach by the District or the City of any agreement, condition, covenant or term hereof, if the District or the City shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the District or the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the District or the City shall make a general or any assignment for the benefit of its creditors, then in each and every such case the District or the City, as the case may be, shall be deemed to be in default hereunder.

(b) Transfer for Defaulting City's Account. Upon the failure of the City to make any payment which failure constitutes a default under this Agreement, the District shall use its best efforts to transfer for the City's account all or a portion of the City's Project Allotment for all or a portion of the remainder of the term of this Agreement. Notwithstanding that all or any portion of the City's Project Allotment is so transferred, the City shall remain liable to the District to pay the full amount of its share of costs hereunder as if such sale or transfer has not been made, except that such liability shall

be discharged to the extent that the District shall receive payment from the transferee thereof.

(c) Termination of Entitlement to Project Allotment; Continuing Obligations. Upon the failure of the City to make any payment which failure constitutes a default under this Agreement and causes the District to be in default under any Bond Resolution, the District may (in addition to the remedy provided by subsection (b) of this Section) give notice of termination of the provisions of this Agreement insofar as the same entitle the City to its Project Allotment which notice shall be effective within 30 days thereof unless such termination shall be enjoined, stayed or otherwise delayed by judicial action. Irrespective of such termination, the City shall remain liable to the District to pay the full amount of costs hereunder.

(d) Enforcement of Remedies. In addition to the remedies set forth in this Section, upon the occurrence of an Event of Default as defined herein, the District or the City, as the case may be, shall be entitled to proceed to protect and enforce the rights vested in such party by this Agreement by such appropriate judicial proceeding as such party shall deem most effectual, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained herein or to enforce any other legal or equitable right vested in such party by this Agreement or by law. The provisions of this Agreement and the duties of each party hereof, their respective boards, officers or employees shall be enforceable by the other party hereto by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction, with the losing party paying all costs and attorney fees. Without limiting the generality of the foregoing, the District or the City, as the case may be, shall have the right to bring the following actions:

(1) Accounting. By action or suit in equity to require an accounting by the District or the City, as the case may be, including its officers, employees and assigns.

(2) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the District or the City, as the case may be.

(3) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce its rights against the other party hereto (and its board, officers and employees) and to compel the other party hereto to perform and carry out its duties and obligations under the law and its covenants and agreements as provided herein.

(e) Waiver. The waiver by the District or the Trustee of any breach by the City of any agreement, condition, covenant or term hereof shall not operate as a waiver of any subsequent.

breach of the same or any other agreement, condition, covenant or term hereof.

(f) Trustee is Third Party Beneficiary. Any Trustee for District Bonds shall have the right, as a third party beneficiary, to initiate and maintain suit to enforce this Agreement to the extent provided in any Bond Resolution.

Section 17. Transfers, Sales and Assignments of Project Allotment or Water System.

(a) Transfer of Project Allotment. The City has rights to make transfers, sales, assignments and exchanges (collectively "transfers") of its Project Allotment or its rights or obligations with respect thereto only as expressly provided in Section 11 hereof or in clause (b) of this Section.

(b) Transfer of Ownership. Except as may be expressly required by law, the City shall not transfer ownership of all or any substantial portion of its Water System to another entity except in an annexation, consolidation, merger or reorganization with another governmental entity or a change in governmental form in accordance with the Cortese-Knox Local Government Reorganization Act of 1985, as amended (commencing with California Government Code Section 56000, et seq.) or any similar successor statute, in which the surviving entity or entities assume in the aggregate all obligations of the City under this Agreement, and in which the rights under this Agreement may be enforced as provided in Government Code Section 56121 is not deemed a transfer of ownership.

(1) The City shall not consent to such annexation, consolidation, merger or reorganization or change in governmental form unless the City shall have delivered to the District a certificate of an independent financial advisor certifying that, based upon the rates and charges of the surviving entity in effect on the date of such annexation, consolidation, merger or reorganization or change in governmental form, shall be in compliance with Section 19(a) hereof and the surviving entity agrees in writing on or prior to such date to assume all obligations of the City hereunder.

(2) The City shall give ninety (90) days advance written notice to the District of any proposed transfer pursuant to this subsection. Appendix A to this Agreement shall be amended as appropriate to reflect any transaction pursuant to this subsection.

Section 18. Additional Project Participants. The City acknowledges that the District may enter into Water Supply Agreements with Additional Project Participants subsequent to the execution of this Agreement to the extent the District determines

that sufficient capacity exists to supply such Additional Project Participant's Project Allotment consistent with the District's overall delivery abilities. Prior to the execution of a Water Supply Agreement with an Additional Project Participant, the District shall promptly provide to the City a revised Exhibit A to this Agreement setting forth the revised list of Project Allotments of the Project Participants. No Water Supply Agreement with an Additional Project Participant shall be executed with an Additional Project Participant outside the boundaries of the District unless the District shall first offer such Project Allotment to each Project Participant on the same terms and conditions as offered to such Additional Project Participant. The Water Supply Agreement with such Additional Project Participant shall establish a price to be paid by the Additional Project Participant to the City an amount which reasonably compensates the City for Fixed Project Costs and Fixed O&M Costs previously paid by the City which are fairly allocable to the Additional Project Participant, including but not limited to costs incurred by the City in connection with the Project prior to execution of this Agreement, and, if such Additional Project Participant is located outside of the boundaries of the District, is not less than the highest price paid by any Project Participant.

Section 19. Covenants of the City.

(a) Amount of Rates and Charges. The City will fix, prescribe and collect rates and charges for the City Water System which will be at least sufficient to yield during each City Fiscal Year City Net Water System Revenues (excluding Contract Payments) equal to one hundred twenty-five percent (125%) of the Contract Payments for such City Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the City Net Water System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this section.

(b) Against Sale or Other Disposition of Property. The City will not sell, lease or otherwise dispose of the City Water System or any part thereof, except as provided in Section 17 hereof, unless the City determines that such sale, lease or other disposition will not materially adversely affect the City's ability to comply with subsection (a) of this Section. The City will not enter into any agreement or lease which impairs the operation of the City Water System or any part thereof necessary to secure adequate City Net Water System Revenues for the payment of the obligations imposed under this Agreement or which would otherwise impair the rights of the District with respect to the City Water System Revenues or the operation of the City Water System.

(c) Against Competitive Facilities. To the extent permitted by existing law and within the scope of its powers but only to the extent necessary to protect the rights of the owners of District Bond, the City will not acquire, construct, maintain or operate and will use its best efforts not to permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the boundaries of the City any water system competitive with the City Water System which might have the effect of materially adversely affecting the City's ability to pay Fixed Project Costs, Fixed O&M Costs and Variable O&M Costs.

(d) Maintenance and Operation of the City Water System; Budgets. The City will maintain and preserve the City Water System in good repair and working order at all times and will operate the City Water System in an efficient and economical manner and will pay all City Operation and Maintenance Expenses as they become due and payable. On or before the first day of each City Fiscal Year thereafter, the City will adopt and file with the District a budget approved by the legislative body of the City, including therein in the estimated City Operation and Maintenance Expenses for such City Fiscal Year the estimated Fixed Project Costs, Fixed O&M Costs and Variable O&M Costs payable. Any budget may be amended at any time during any City Fiscal Year and such amended budget shall be filed by the City with the District. The District may enforce this clause (d) only to the extent necessary to protect the rights of the owners of District Bonds.

(e) Insurance. The City shall procure and maintain or cause to be procured and maintained insurance on the City Water System with responsible insurers so long as such insurance is available from reputable insurance companies, or, alternatively, shall establish a program of self-insurance, or participate in a joint powers agency providing insurance or other pooled insurance program, in such amounts and against such risks (including accident to or destruction of the City Water System) as are usually covered in connection with water systems similar to the City Water System.

(f) Accounting Records and Financial Statements.

(i) The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the City Water System, which records shall be available for inspection by the District and the Trustee at reasonable hours and under reasonable conditions.

(ii) The City will prepare and file with the District annually within one hundred eighty (180) days after the close of each City Fiscal Year (commencing with the City

Fiscal Year ending June 30, 1995) financial statements of the City for the preceding City Fiscal Year prepared in accordance with generally accepted accounting principles, together with a report of an Independent Certified Public Accountant thereon. The City will promptly furnish a copy of such report to the District and to the Trustee.

(g) Protection of Security and Rights of the District. The City will preserve and protect the rights of the District and the Trustee to the obligations of the City hereunder and will warrant and defend such rights against all claims and demands of all persons.

(h) Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the City Water System or any part thereof or upon the City Water System Revenues when the same shall become due. The City will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the City Water System or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

(i) Further Assurances. The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to effect the financing and refinancing of the Project, to assure the District of the City's intention to perform hereunder and for the better assuring and confirming unto the District and the Trustee of the rights and benefits provided to them herein.

(j) Maintenance of Tax-Exempt Status of District Bonds. Notwithstanding any other provision of this Agreement, the City shall not take any action or omit to take any action, directly or indirectly, in any manner, which would result in any of the District Bonds being treated as an obligation not described in Section 103(a) of the Internal Revenue Code of 1986, as amended, by reason of classification of such District Bond as a "private activity bond" within the meaning of Section 141 of said Code or for any other reason.

Section 20. Covenants of the District.

(a) Insurance. The District shall procure and maintain or cause to be procured and maintained insurance on the Project with responsible insurers so long as such insurance is available from reputable insurance companies, or, alternatively, shall establish a program of self-insurance, or participate in a joint powers agency providing insurance or other pooled insurance program, covering such risks, in such amounts and with such deductibles as shall be determined by the District. The District shall

indemnify and hold harmless the City from any liability for personal injury or property damage resulting from any accident or occurrence arising out of or in any way related to the construction or operation of the Project.

(b) Accounting Records and Financial Statements.

(i) The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Project, which records shall be available for inspection, copying and audit by the City and its accountants, attorneys and agents at reasonable hours and under reasonable conditions.

(ii) The District will prepare annually within one hundred eighty (180) days after the close of each District Fiscal Year (commencing with the District Fiscal Year ending December 31, 1995) financial statements of the District for the preceding District Fiscal Year prepared in accordance with generally accepted accounting principles, together with a report of an Independent Certified Public Accountant thereof. The District will promptly furnish a copy of such report to the City and to the Trustee.

(c) Compliance with Law. The District shall comply with all local, state and federal laws applicable to the Project.

(d) Against Sale or Other Disposition of Project. The District will not sell, lease or otherwise dispose of the Project or any part thereof unless the Board of Directors of the District determines that such sale, lease or other disposition will not materially adversely affect the District's ability to comply with its obligations hereunder and such determination is approved by the Operating Committee.

(e) Maintenance and Operation of the Project. Subject to the payment obligations of the Project Participants hereunder, the District will maintain and preserve the Project in good repair and working order at all times and will operate the Project in an efficient and economical manner.

Section 21. Term.

(a) No provision of this Agreement shall take effect until it and Water Supply Agreements with all Project Participants (other than Additional Project Participants) have been duly executed and delivered to the District together with an opinion for each Project Participant of an attorney or firm of attorneys in substantially the form attached hereto as Exhibit B and an opinion for the District of Brown & Wood, Special Counsel to the District, in substantially the form attached hereto as Exhibit C.

(b) Notwithstanding the delay in effective date of this Agreement until all Project Participants have complied with subsection (a) of this Section, it is agreed by the City that in consideration for the District's signature hereto, and for its commitment to use its best efforts to obtain the commitment of all Project Participants, the City upon its execution and delivery of this Agreement to the District along with the required opinion and any required evidence of compliance as required by subsection (a) of this Section shall be immediately bound not to withdraw its respective offer herein made to enter into this Agreement as executed and/or supplemented or to decrease or terminate its Project Allotment before December 1, 1995.

(c) Unless terminated in accordance with Section 3(c), the term of this Agreement shall continue until the later of December 31, 2029 and the final maturity of District Bonds. The parties hereto agree to negotiate in good faith to amend this Agreement on or prior to such date to extend the term hereof and to include terms and conditions as are mutually agreeable to the parties, provided that the price to be paid with respect to the Project Allotment in such amendment shall reflect the payment of capital costs to such date. In the event that the District and all Project Participants cannot agree to amend the Agreement, the District agrees to cause ownership of the Project to be transferred to a joint powers agency or similar entity created by the Project Participants and to enter into a raw water sale agreement with such entity on terms and conditions consistent with the raw water pricing and delivery policy in effect under this Agreement at the time of such transfer.

In the event the ownership of the Project is transferred pursuant to this subparagraph (c), the quantity of raw water that will be made available to the entity created by the Project Participants shall not be reduced from the quantity of raw water being made available by the District to the Project Participants immediately prior to the expiration of the term of this Agreement. Should the ownership of the Project be transferred to a new entity, the price paid to the District for raw water shall be on the same terms as prior to the transfer, plus any costs incurred by the District for operation, maintenance or capital improvement reimbursements relating to facilities necessary to deliver raw water to the Project.

Section 22. Assignment.

The District may pledge and assign to any Trustee for District Bonds, all or any portion of the payments received under this Agreement from the City and the District's other rights and interests under this Agreement. Such pledge and assignment by the District shall be made effective for such time as the District shall determine and provide that the Trustee shall have the power to enforce this Agreement in the event of a default by

the District under a Bond Resolution. The City may assign its rights or obligations under this Agreement only in accordance with Section 17 hereof.

Section 23. Amendments.

Except as otherwise provided in this Agreement, on and after the date District Bonds are issued and so long as any District Bonds are outstanding in accordance with the applicable Bond Resolution, Section 11(d), 12(a), (c) and (d), 14(a), 16, 17, 19 and 21 of this Agreement shall not be amended, modified or otherwise changed or rescinded by agreement of the parties without the consent of each Trustee for District Bonds whose consent is required under the applicable Bond Resolution. This Agreement may only be otherwise amended, modified, changed or rescinded in writing by each of the parties hereto.

Notwithstanding the foregoing, the sections of this Agreement set forth in the prior paragraph of this Section may be amended without the consent of each Trustee for District Bonds for any of the following purposes:

(a) to add to the agreements, conditions, covenants and terms contained herein required to be observed or performed by the District or the City other agreements, conditions, covenants and terms hereafter to be observed or performed by the District or the City, or to surrender any right reserved herein to or conferred herein on the District or the City, and which in either case shall not adversely affect the interests of the owners of any District Bonds;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or in regard to questions arising hereunder which the District or the City may deem desirable or necessary and not inconsistent herewith, and which shall not materially adversely affect the interests of the owners of any District Bonds;

(c) to make any modifications or changes necessary or appropriate in the opinion of a firm of nationally recognized standing in the field of law relating to municipal bonds to preserve or protect the exclusion from gross income of interest on the District Bonds for federal income tax purposes;

(d) to make any modifications or changes to this Agreement in order to enable the execution and delivery of District Bonds on a parity with any District Bonds previously issued and to make any modifications or changes necessary or appropriate in connection with the execution and delivery of District Bonds;

(e) to make any other modification or change to the provisions of this Agreement which does not materially adversely affect the interests of the owners of any District Bonds;

(f) to make changes to the definition of "Project", including but not limited to changes resulting from the operation of Sections 3 and 4 hereof.

Section 24. Additional Water in Future

The District agrees that on or about January 1, 2005, to the extent the Board of Directors of the District determines that water surplus to the needs of agricultural water users within the District is then available and subject to compliance with federal and state laws, including CEQA, and to the District's water rights, permits and licenses, and to state laws applicable thereto, the District shall commence proceedings to expand the Project to make additional treated water available to the Project Participants, but such expansion shall occur only on terms and conditions reasonably agreeable to the District and the Project Participants. In the event that the District and the Project Participants cannot agree upon terms and conditions for expansion of the Project and delivery of additional treated water, the District shall not be obligated to expand the Project or to make additional treated water available to the Project Participants. Nothing in this Agreement shall be construed to require the District to deliver treated water to the City in excess of the City's Project Allotment or to enter into any agreement to deliver treated water to the City in excess of the City's Project Allotment unless the District Board of Directors determines that water surplus to the needs of agricultural water users within the District is available to the District.

Section 25. Miscellaneous.

The headings of the sections hereof are inserted for convenience only and shall not be deemed a part of this Agreement.

If any one or more of the covenants or agreements provided in this Agreement to be performed should be determined to be invalid or contrary to law, such covenant or agreement shall be deemed and construed to be severable from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Agreement.

This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.

This Agreement shall be governed by and construed in accordance with the laws of the State of California.

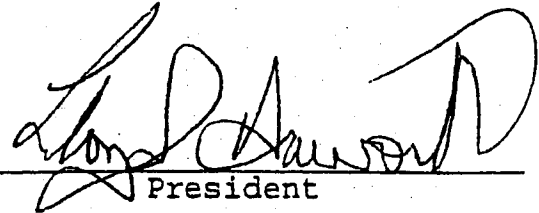
IN WITNESS WHEREOF the City has executed this Agreement with the approval of its governing body, and caused its official seal to be affixed and the District has executed this Agreement in accordance with the authorization of its Board of Directors, and caused its official seal to be affixed.

SOUTH SAN JOAQUIN
IRRIGATION DISTRICT


[SEAL]

Attest:

By


President

By



Secretary

CITY OF LATHROP

[SEAL]

Attest:

By


Mayor

By:


City Clerk

Approved as to form

By:



City Attorney

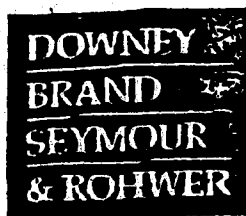
EXHIBIT A

PHASE I - UP TO YEAR 2010

<u>City</u>	<u>Project Allotment</u>
1. City of Escalon	2,015
2. City of Lathrop	8,007
3. City of Manteca	12,700
4. City of Ripon	1,232
5. City of Tracy	10,000
	<hr/> 33,954

PHASE II - UP TO YEAR 2025
SCHEDULE OF PROJECT ALLOTMENTS

<u>City</u>	<u>Project Allotment</u>
1. City of Escalon	2,799
2. City of Lathrop	11,791
3. City of Manteca	24,500
4. City of Ripon	3,919
5. City of Tracy	10,000
	<hr/> 53,009



ATTORNEYS AT LAW
ESTABLISHED 1926

555 CAPITOL MALL
10TH FLOOR
SACRAMENTO, CA 95814-4686
TELEPHONE (916) 441-0131
FAX (916) 441-4021

EXHIBIT B

November 17, 1995

South San Joaquin Irrigation District
11011 East Highway 20
Manteca, California 95336

City of Lathrop
16775 Howland Road
Building 1
Lathrop, California 95330-9792

Ladies and Gentlemen:

We are acting as special counsel to the City of Lathrop (the "City") under the Water Supply Development Agreement, dated as of October 1, 1995 (the "Agreement"), between the South San Joaquin Irrigation District (the "District") and the City, and have acted as special counsel to the City in connection with the matters referred to herein. As such counsel we have examined and are familiar with (i) the Certificate of Filing recorded by the Executive Officer of the Local Agency Formation Commission of San Joaquin County and other documents relating to the existence, organization and operation of the City, (ii) the Certificate of City Manager of the City, dated November 9, 1995, (iii) minutes of the October 17, 1995 meeting of the City Council of the City relating to the authorization, execution and delivery of the Agreement, (iv) an unexecuted copy of the Agreement, dated October 1, 1995, and (v) such other records, documents, memoranda, and other instruments as in our judgment are necessary or appropriate to enable us to render the opinions expressed below. Terms used herein and not otherwise defined have the respective meanings set forth in the Agreement or the Legal Opinion Accord (the "Accord") of the ABA Section of Business Law (1991).

This opinion is governed by, and shall be interpreted in accordance with, the Accord. As a consequence, it is subject to a number of qualifications, exceptions, definitions, limitations on coverage and other limitations, all as more particularly described in the Accord, and this opinion

should be read in conjunction with the Accord. This opinion is also governed by, and shall be interpreted in accordance with, the "California Provisions" as defined in the Business Law Section of the California State Bar Report on the Third Party Legal Opinion Report of the ABA Section of Business Law (dated, May 1992), and is therefore subject to a number of additional qualifications, exceptions, and understandings, all as more particularly described in the California Provisions, and this opinion should also be read in conjunction therewith.

In addition to the foregoing, in rendering the opinions expressed herein, we have assumed: the accuracy and completeness of the factual representations made to us by the City and other public officials; the genuineness and authenticity of all signatures on original documents; the authenticity of all documents submitted to us as originals; the conformity to originals of all documents submitted to us as copies; and the due authorization, execution, and delivery of all documents, where authorization, execution, and delivery are prerequisites to the effectiveness of such documents. We have also assumed that any certificates or other documents upon which we have relied that were given or dated earlier than the date of this opinion continue to remain accurate insofar as relevant to our opinions, from such earlier date through and including the date of this opinion.

Based upon and subject to the foregoing, we are of the opinion that:

1. The City is a general law city, duly created, organized and existing under the laws of the State of California and duly qualified to furnish water service within its boundaries.
2. The City has legal right, power and authority to enter into the Agreement and to carry out and consummate all transactions required thereby, and the City has complied with the provisions of applicable law relating to such transactions.
3. Execution of the Agreement by the City has been duly authorized, and when executed and delivered by the City, the Agreement will be in full force and

South San Joaquin Irrigation District

November 17, 1995

Page 3

effect as to the City in accordance with its terms and, subject to the qualifications set forth herein, and assuming that the District has all requisite power and authority, and has duly authorized, executed and delivered such Agreement, the Agreement will constitute a valid and binding obligation of the City.

4. There is no approval, consent or authorization of any governmental or public agency, authority or person required for the execution and delivery by the City of the Agreement.

5. The authorization, execution and delivery of the Agreement and compliance with the provisions thereof will not conflict with or constitute a breach of, or default under, any instrument relating to the organization, existence or operation of the City, any commitment, agreement or other instrument to which the City is a party or by which it or its property is bound or affected, or any ruling, regulation, ordinance, judgment, order or decree to which the City (or any of its officers in their respective capacities as such) is subject or any provision of the laws of the State of California relating to the City and its affairs.

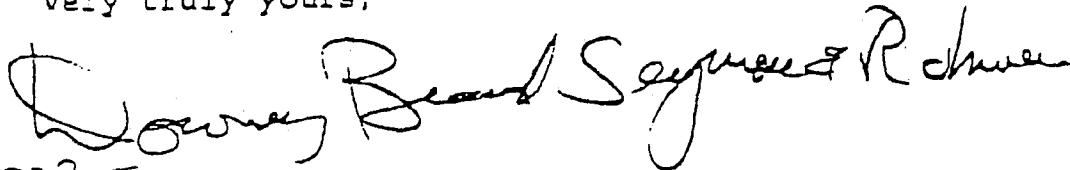
6. To the best of our knowledge, there is no action, suit, proceeding, inquiry or investigation at law or in equity, or before any court, public board or body against the City or any of its officers in their respective capacities as such, which questions the powers of the City referred to in paragraph 2 above or the validity of the proceedings taken by the City in connection with the authorization, execution or delivery of the Agreement, or wherein any unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by the Agreement or which would adversely affect the validity or enforceability of the Agreement.

The term "to the best of our knowledge" means (i) due inquiry of City officers and City representatives, and (ii) due inquiry of lawyers employed by this firm who have devoted substantive attention to legal matters for the City since May 1992, as disclosed by firm internal timekeeping records.

We are admitted to practice law in the State of California, and our opinion is limited to the laws of California and federal laws of the United States. Our opinion is rendered as of the date of this letter. We have no duty or obligation, nor do we undertake such duty or obligation, to advise you or any third party of changes of law or fact that occur after the date of this letter, even though the change may affect the legal analysis, legal conclusion, or informational confirmation contained herein.

This letter is being furnished to you solely for the benefit of the South San Joaquin Irrigation District. It may not be used, circulated, relied upon, filed or quoted by or used by any other person or entity, or used for any other purpose, without our express written consent.

Very truly yours,





EAST-138468.2

EXHIBIT C

[This opinion shall be delivered upon execution of the Water Supply Agreement]

October __, 1995

South San Joaquin Irrigation District
11011 East Highway 20
Manteca, California 95336

The Cities Listed on
Exhibit A attached hereto

Ladies and Gentlemen:

We are acting as special counsel to the South San Joaquin Irrigation District (the "District") under certain Water Supply Development Agreements, dated as of October 1, 1995 (each, an "Agreement"), between the District and each of the water contractors identified on Exhibit A attached hereto (each, a "City") in connection with the matters referred to herein. As such counsel we have examined and are familiar with (i) documents relating to the existence, organization and operation of the District provided to us by the District, (ii) certifications by officers of the District, (iii) all necessary documentation of the District relating to the authorization, execution and delivery of the Agreement, and (iv) an executed counterpart of the Agreement. Terms used herein and not otherwise defined have the respective meanings set forth in the Agreement.

Based upon the foregoing and such examination of law and such other information, papers and documents as we deem necessary or advisable to enable us to render this opinion, including the Constitution and laws of the State of California, together with the resolutions, ordinances and public proceedings of the District, we are of the opinion that:

1. The District is an irrigation district duly created, organized and existing under the laws of the State of California.

2. The District has legal right, power and authority to enter into the Agreement and to carry out and consummate all transactions reasonably contemplated thereby, and the District

has complied with the provisions of applicable law relating to such transactions.

3. The Agreement has been duly authorized, executed and delivered by the District, is in full force and effect as to the District in accordance with its terms and, subject to the qualifications set forth in the second to the last paragraph hereof, and assuming that each City has all requisite power and authority, and has taken all necessary action, to authorize, execute and deliver such Agreement, the Agreement constitutes the valid and binding obligation of the District.

4. No approval, consent or authorization of any governmental or public agency, authority or person is required for the execution and delivery by the District of the Agreement.

5. The authorization, execution and delivery of the Agreement and compliance with the provisions thereof will not conflict with or constitute a breach of, or default under, any instrument relating to the organization, existence or operation of the District, any commitment, agreement or other instrument to which the District is a party or by which it or its property is bound or affected, or, to the best of our knowledge, any ruling, regulation, ordinance, judgment, order or decree to which the District (or any of its officers in their respective capacities as such) is subject or any provision of the laws of the State of California relating to the District and its affairs.

6. There is no action, suit, proceeding, inquiry or investigation at law or in equity, or before any court, public board or body, pending or, to our knowledge, threatened against or affecting the District or any of its officers in their respective capacities as such, which questions the powers of the District referred to in paragraph 2 above or the validity of the proceedings taken by the District in connection with the authorization, execution or delivery of the Agreement, or wherein any unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by the Agreement, or which, in any way, would adversely affect the validity or enforceability of the Agreement.

The opinion expressed in paragraph 3 above is qualified to the extent that the enforceability of the Agreement may be limited by any applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, or other laws affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases and to the

South San Joaquin Irrigation District
Cities Listed on Exhibit A Attached hereto
July __, 1995
Page 3

limitations on legal remedies against public agencies in the State of California and provided that no opinion is expressed with respect to any indemnification or contribution provisions contained therein.

This opinion is rendered only with respect to the laws of the State of California and the United States of America and is addressed only to the District and the Cities. No other person is entitled to rely on this opinion, nor may you rely on it in connection with any transactions other than those described herein.

Very truly yours,

EXHIBIT D.

LIST OF NOTES, BONDS OR OTHER OBLIGATIONS OF THE CITY AS OF DATE
OF EXECUTION TO WHICH CITY WATER SYSTEM REVENUES ARE PLEDGED

<u>DESCRIPTION</u>	<u>MAXIMUM ANNUAL DEBT SERVICE</u>
LONG TERM NOTES PAYABLE	\$ 54,925
CERTIFICATES OF PARTICIPATION	<u>\$131,976</u>
TOTAL	<u>\$186,901</u>

ADDRESSEES

SCHEDULE A

RESOLUTION NO. 00-888

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LATHROP
AUTHORIZING THE MAYOR TO EXECUTE AMENDMENT NO. 1 TO
THE WATER SUPPLY DEVELOPMENT AGREEMENT
BETWEEN SOUTH SAN JOAQUIN IRRIGATION DISTRICT AND THE
CITY OF LATHROP

WHEREAS, in 1995, the City entered into a Water Supply Development Agreement to participate in the South County Surface Water Project; and

WHEREAS, changes to the project have arisen over time, including, but not limited to, the timing of the project and methods of financing; and

WHEREAS, the parties are desirous of amending the agreement to reflect more accurately the current project schedule and financing being utilized.

NOW, THEREFORE, BE IT RESOLVED that the Mayor is hereby authorized to execute "Amendment No. 1 to the Water Supply Development Agreement between the City of Lathrop and South San Joaquin Irrigation District."

The foregoing resolution was passed and adopted this 21st day of March, 2000, by the following vote:

AYES: Rhodes, Oliver, Gleason, Griffith, McKee

NOES:


ABSTAIN:

ABSENT:

ATTEST:


LISA OLIVEIRA, CITY CLERK

APPROVED AS TO FORM:


SUSAN BURNS COCHRAN, CITY
ATTORNEY

Post-it® Fax Note	7671	Date	8-27-02	# of pages	9
To	DAVE RICHMOND	From	DORONIA		
Co./Dept.		Co			
Phone #		Phone #			
Fax #	916-641-9222	Fax #			

AMENDMENT NO. 1
TO THE WATER SUPPLY DEVELOPMENT AGREEMENT
BETWEEN THE CITY OF LATHROP
AND THE SOUTH SAN JOAQUIN IRRIGATION DISTRICT

This Amendment No. 1 ("Amendment") to the Water Supply Development Agreement is made and entered into between the City of Lathrop, a municipal corporation ("City"), and the South San Joaquin Irrigation District ("SSJID").

RECITALS

- A. The City and SSJID entered into a Water Supply /Development Agreement ("WSDA Agreement") dated as of October 1, 1995.
- B. The parties desire to make certain changes to the WSDA Agreement which are set forth below.

NOW THEREFORE, THE PARTIES MUTUALLY AGREE AS FOLLOWS:

1. Incorporation By Reference. This amendment hereby incorporates by reference all terms and conditions set forth in the WSDA Agreement, unless specifically modified by this Amendment. All terms and conditions set forth in the WSDA Agreement which are not specifically modified by this Amendment shall remain in full force and effect.

2. Terms of Amendment.

- A. The definition of "Fixed Project Costs" in Section 1 is amended to read as follows:

"Fixed Project Costs," means capital costs incurred by District related to design, right of way, acquisition, CEQA compliance, construction management and construction of the Project and including Debt Service and Reserves for the payment of the Debt Service of the Project in accordance with Sections 13 and 14.

- B. Section 3(d), is amended to read as follows:

"(d) Obligation to Pay Fixed Project Costs. The City and the District acknowledge that the City is obligated to pay Fixed Project Costs in advance of the delivery of treated water and prior to commencement of actual construction of the Project. Fixed Project Costs may be paid by the City by cash payments or the City may cause such Fixed Project Costs to be financed through the issuance of District Bonds as provided in Sections 3 and 4 hereof. The City and the District further acknowledge that if the City pays Fixed Project Costs to the District in cash, such Fixed Project Costs shall not

thereafter be allocated to the City in the determination of rates and charges as set forth in Section 12 hereof or for the annual budget as provided in Section 13 hereof. In the event City has paid all Fixed Project Costs allocable thereto prior to the notice of termination as set forth in Section 3(c) in cash, the City and the District acknowledge that no further monies shall be due from City for Fixed Project Costs."

C. Section 12(a), Rates and Charges, subparagraph (i) is amended to read as follows:

(i) Fixed Project Costs unless the City has satisfied its Fixed Project Costs as provided for in Section 3.

D. Section 12(c), Rates and Charges, is amended to read as follows:

"(c) Source of Payments. The obligation of the City to make payments under this Agreement is not a general obligation of the City and the City shall make payments under this Agreement solely from City Water System Revenues, including but not limited to, Development Mitigation Fees collected pursuant to Government Code sections 66000 (AB1600), connection fees, and/or capacity charges. The City shall make such payments prior to any payment therefrom, other than City Prior Debt, and on a parity with other City Operation and Maintenance Expenses. Nothing herein shall be construed as prohibiting (i) the City from using any other funds and revenues, for purposes of satisfying any provisions of this Agreement or (ii) from incurring obligations payable on a parity with the obligations under this Agreement so long as City complies with subsection (a) of Section 19(a) hereof."

E. Section 14(a), "Allocation of Costs and Expenses" is amended to read as follows:

"(a) Method of Computation of Fixed Project Costs. The Fixed Project Costs shall be sufficient to return to the District those capital costs of the District necessary to treat and deliver water to the City, less payments made by City. The total amount of Fixed Project Costs, including each Reach utilized by City, shall be allocated to the City based upon the City's proportionate share of the total capacity of the Treatment Plant and the Reaches, except that those Fixed Project Costs not related to capacity shall be allocated based the City's proportionate share of the total Project allotment. The City and the District acknowledge that if the City has not elected to have all facilities which are a part of the Project sized to enable the City to take treated water, the City shall not be liable for any Fixed Project Costs for such unconstructed facilities."

F. Section 19(a) is amended to read as follows:

(a) Amount of Rates and Charges. The City will fix, prescribe and collect rates and charges for the City Water System which will be at least sufficient to yield during each City Fiscal Year City Net Water System Revenues (excluding Contract Payments) equal to

one hundred twenty-five percent (125%) of the Contract Payments for such City Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the City Net Water System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this section; provided however that to the extent all or a portion of Fixed Project Costs are paid by the City in advance from City reserves, such portion of Fixed Project Costs shall not be included in Contract Payments for purposes of this Section 19(a).

G. Exhibit A of the WSDA Agreement is deleted and is replaced by Exhibit 1 attached hereto, which is hereby appended to the WSDA Agreement as Exhibit E and is incorporated herein by this reference.

3. Payment of Fixed Project Costs. City has paid to District Fixed Project Costs in the following amounts: _____. The parties anticipate that at least two more payments of Fixed Project Costs will be required, prior to final design and prior to construction, and additional payments may be required for other purposes before completion of the Project.

4. Estimated Project Budget and Cost Allocation. A copy of the allocation of Fixed Project among the Cities is attached hereto as Exhibit 2 and is hereby appended to the WSDA Agreement as Exhibit F. The allocation is based upon the latest estimated Project budget in Table 1 which is attached to Exhibit 2. The Operating Committee has recommended the proposed budget to the District for its approval. The District has the discretion to approve the budget and any changes to the budget, as provided in the WSDA Agreement.

5. Consent of Trustee Not Required. The consent of Trustee to this Amendment No. 1 is not required under Section 23 of the WSDA Agreement as there are no outstanding District Bonds at the time of execution of this Amendment No. 1.

6. Modifications. This Amendment may not be modified orally or in any manner other than by an agreement in writing signed by both parties, in accordance with the requirements of the WSDA Agreement.

7. Severability. In the event any term of this Amendment is held invalid by a court of competent jurisdiction, the Amendment shall be construed as not containing that term, and the remainder of this Amendment shall remain in full force and effect.

8. Signatures. The individuals executing this Amendment represent and warrant that they have the right, power, legal capacity, and authority to enter into and to execute this Amendment on behalf of the respective legal entities. This Amendment shall inure to the benefit of and be binding upon the parties thereto and their respective successors and assigns.

IN WITNESS WHEREOF the parties do hereby agree to the full performance of the

terms set forth herein.

CITY OF LATHROP

By: Steven R. McKee

Steven R. McKee

Title: Mayor

Date: 3/16-23-00

Attest:

By: Lisa Oliveira

Lisa Oliveira

Title: City Clerk

Date: 3/27/00

Approved as to form

By: Susan Burns Cochran

Susan Burns Cochran

Title: City Attorney

Date: 15 March 2000

SOUTH SAN JOAQUIN IRRIGATION
DISTRICT

By: _____

Title: President of the SSJD Board

Date: _____

Attest:

By: _____

Title: Secretary of the SSJD Board

Date: _____

Approved as to form

By: _____

Steven P. Emrick

Title: General Counsel

Date: _____

EXHIBIT 2

APPENDED AS EXHIBIT F TO WATER SUPPLY DEVELOPMENT AGREEMENT

ESTIMATED PROJECT BUDGET AND COST ALLOCATIONS

Set forth below is the allocation of Fixed Project Costs among the Cities based upon the latest estimated Project budget in Table 1 attached hereto. Each party hereto acknowledges that the costs will change from time to time as project design and construction is undertaken and that no final costs allocation can be determined until completion of the Project.

<u>City</u>	<u>Estimated Share</u>	<u>Percent of Total</u>
Escalon	\$2,203,450	1.83%
Manteca	\$37,097,963	29.40%
Lathrop	\$42,102,256	33.35%
Tracy	\$44,698,751	35.42%